



JOHN CHIANG
California State Controller

March 26, 2007

Via Facsimile (202) 225-1931 & U.S. Mail

Congressman Nick J. Rahall II, Chairman
House Committee on Natural Resources
1324 Longworth House Office Building
Washington, DC 20515

Re: Statement of John Chiang, Controller, State of California
To the House Committee on Natural Resources

Dear Chairman Rahall:

I am unable to personally attend the House Natural Resource Hearing on royalty collection issues scheduled for Wednesday, March 28, 2007, however, I respectfully request that the following comments be made a part of the record of that hearing.

As California's State Controller and its Chief Fiscal Officer, I am responsible for superintending the fiscal concerns of the State. In that capacity, my office audits revenue owed under federal leases located within state boundaries. Congress authorized the Interior Department to delegate audit authority to states at the recommendation of the Linowes Commission, which, in 1982, recognized that states, as well as tribes, have a more direct revenue interest and, in many cases, greater expertise about the operations of the minerals industry in their regions. The "partnership" that Congress envisioned 25 years ago does not exist today.

As you know, half of all the royalties from oil production on federal lands are given to the states in which the oil is produced. In California, where, as Controller, I am responsible for collecting that money, all of it is dedicated to the public education of the children of this state. Almost without exception, when this Interior Department had to choose between collecting money for the schoolchildren of California or giving it to the oil companies, they chose the oil companies.

The leadership of the Interior Department has and continues to condone favoring the oil companies, despite numerous adverse public reports from its own Inspector General. Only after this Committee scheduled a hearing did the Department announce it was

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establishing a subcommittee of its Royalty Advisory Committee to look into potential problems. It is interesting to note, that although two former Senators were named as heads of that subcommittee, they have other full time jobs. Perhaps more troubling is the fact that the vice chair appointed to run that subcommittee on a day to day basis is a former high ranking official of the American Petroleum Institute. This not only raises questions regarding an inherent conflict of interest but also raises a specter of doubt as to whether the results of the inquiry will be fair and impartial.

In part, as a result of my office's efforts, Congress authorized the states to audit the royalty program in their states. But current officials of the Interior Department have tried to inhibit those efforts. Over the last couple of years, the Interior Department has cut my office's audit funding twice and we are told to expect further reductions. Simply stated, these reductions which ultimately benefit the oil companies at the expense of school children are unacceptable and irresponsible. The Interior Department's current "audit" system does not meet any of the GAO's criteria for an audit. Right now the best they can do is see whether the figures the oil companies give them add up correctly in part because, despite the hundreds of millions they spent, their computer system does not work. But they publicly proclaim they have closed hundreds, if not thousands, of audits. What they do not tell you is that no one knows how much money the companies should have paid because the audits were not complete before they were closed.

As a state-wide elected official responsible for collecting money owed to the State, I emphatically request immediate restoration of audit funding in order to restore integrity and credibility to the process and ensure that the states are adequately and fairly compensated.

Sincerely,

JOHN CHIANG
California State Controller

JC/ac

cc: California Congressional Delegation